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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

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AZ Corporation Commission
Director Of Utilities

IN THE MATTER OF THE APPLICATION
OF MORENCI WATER AND ELECTRIC
COMPANY FOR A DECREASE IN ITS
PURCHASED POWER AND FUEL
ADJUSTMENT CLAUSE RATE

DOCKET NO. E-01049A-04-0936

DECISION NO. 67676

ORDER

Open Meeting
March 8 and 9, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On December 28, 2004, Morenci Water and Electric Company ("Morenci") filed for Commission approval of a decrease in its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. The PPFAC rate is an adjustable rate that reconciles the mathematical difference between the base cost of power set in a rate case and the actual costs for power paid by Morenci. Morenci's base cost of power is \$0.07522 and was authorized by Decision No. 54712 on October 10, 1985. Adjustments to Morenci's PPFAC rate may be made periodically outside a rate case and must be authorized by the Commission. For this reason, Morenci seeks Commission approval for adjustment to its PPFAC rate.

2. Currently, Morenci has a PPFAC rate of negative \$0.01391 set in Decision No. 57767 on March 16, 1992. The PPFAC rate is a negative number as Morenci's actual cost of power has been lower than the base cost of power set in Decision No. 54712. In this filing,

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Decision No. _____

1 Morenci is asking that the adjustor be reset to negative \$0.04430 as significant overcollection is
2 accruing in the adjustor bank balance.

3 3. Morenci initially filed for Commission approval of a two phase decrease in its
4 PPFAC rate in its December 28, 2004 filing. The first phase proposed changing the PPFAC rate to
5 \$0.04330 beginning March 1, 2005. This rate is designed so that the sum of Morenci's base rate
6 and adjustor rate will be below the actual cost of power and consequently reduce the currently
7 existing overcollected bank balance. The second phase would then change the PPFAC rate again
8 on January 1, 2007 to negative \$0.03075. The second phase was intended to reset the adjustor to
9 reflect the cost of power that Morenci anticipates to exist in 2007.

10 4. On February 2, 2005, Morenci filed an amended application to replace its
11 application of December 28, 2004. The amended filing continues to seek approval for
12 implementation of a new PPFAC rate of negative \$0.04330 as proposed in the December
13 application but carries a new implementation date of April 1, 2005. The amended filing does not
14 seek the second phase change to the adjustor which would change the rate to \$0.03075 in
15 January 1, 2007 as proposed in the December application.

16 5. Previously, Morenci's PPFAC rate had been temporarily adjusted to negative
17 \$0.05052 by Decisions No. 61298 (December 16, 1998) and Decision No. 61705 (May 13, 1999).
18 That rate was implemented for a fixed period of time and expired in May of 2001. Since the
19 expiration of that adjustment, the bank balance has grown to the current overcollected level.
20 Power prices paid by Morenci have been stable during that period and consequently overcollection
21 has increased in a very linear fashion. As of December 2004, the overcollected balance is
22 approximately \$475,000.

23 6. Staff's analysis of the future PPFAC balance, based on Morenci's projections for
24 future power costs and customer consumption, indicates that the PPFAC balance will not be
25 reduced to zero within 23 months without reducing the effective PPFAC rate from its current rate
26 of negative \$0.01391 to negative \$0.04330, a net reduction of \$0.02939.

27 7. Implementation of the new PPFAC rate will have the effect of reducing residential
28 customer's bill from \$51.05 to \$35.76, assuming an average monthly usage of 520 kWh.

1 Residential customer usage averaged over the course of the 2004 calendar year is 520 kWh
2 monthly.

3 8. Morenci has indicated to Staff that it has given notice to customers of the proposed
4 change to the adjustor through a bill insert sent in January. Staff has reviewed the insert and found
5 it to be reasonable notice for the proposed change to the adjustor.

6 9. Staff has reviewed projections for future cost, consumption, and other estimations
7 used in determining an appropriate credit and finds them reasonable for purposes of setting the
8 credit.

9 10. Morenci's proposed reduction to the PPFAC rate of \$0.02939, the difference
10 between the current PPFAC rate and the proposed PPFAC rate, appears to be a reasonable step in
11 addressing the problem of the highly overcollected PPFAC bank balance and it is likely to result in
12 elimination of the overcollection within twenty-three months. Should an adjustment to the PPFAC
13 be made in April, overcollection at that time will have accrued over a period of twenty two months
14 having begun to accrue in June of 2003. The period of anticipated amortization of the
15 overcollected balance will nearly equal to the length of the period in which the balance accrued.

16 11. Rather than implementing a two phase rate plan or, alternatively, permanently
17 implementing a single new adjustor rate, Staff recommends that the reduction in the PPFAC rate
18 be implemented through a credit which will be in place for a period of 23 months or until such
19 time as the bank balance is reduced to zero, whichever comes first. Use of a temporary credit
20 rather than a permanent change to the adjustor will mitigate against the need to later implement a
21 surcharge once the overcollection has been eliminated. Use of a temporary credit rather than
22 adopting a plan that implements a two phase rate adjustment will allow for reevaluation of the
23 bank balance and power prices in 2007. Staff finds it more appropriate to determine the 2007
24 adjustor rates in 2007 based on conditions that prevail at the time rather than attempting to set an
25 adjustor rate today for 2007 when future power costs are not known at this time.

26 CONCLUSIONS OF LAW

27 1. Morenci Water and Electric Company is an Arizona public service corporation
28 within the meaning of Article XV, Section 2, of the Arizona Constitution.

1 2. The Commission has jurisdiction over Morenci Water and Electric Company and
2 over the subject matter of the application.

3 3. The Commission, having reviewed the application and Staff's Memorandum dated
4 February 18, 2005, concludes that it is in the public interest to approve a PPFAC credit of
5 \$0.02939 per kWh subject to the conditions discussed herein.

6 ORDER

7 IT IS THEREFORE ORDERED that a PPFAC credit of \$0.02939 per kWh is hereby
8 approved, effective April 1, 2005.

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1 IT IS FURTHER ORDERED that the \$0.02939 per kWh credit end at such time as the
2 bank balance is reduced to zero, or the end of February 2007, whichever occurs first.

3 IT IS FURTHER ORDERED that Staff shall, by December 31, 2005, file with the
4 Commission a recommendation establishing a threshold over/under collected (trigger) bank
5 balance for Morenci Water and Electric Company's Purchased Power and Fuel Adjustment
6 Clause.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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12 CHAIRMAN

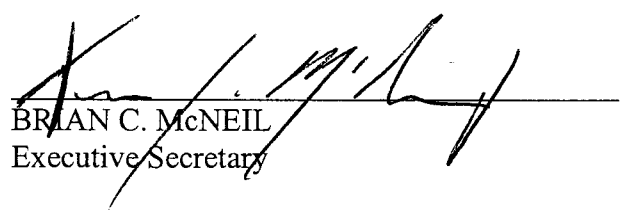
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16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
17 Secretary of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
19 Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 9th day of March, 2005.

21 
22 BRIAN C. McNEIL
23 Executive Secretary

24 DISSENT: _____

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26 DISSENT: _____

27 EGJ:SPI:lm\DR
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